

BEFORE THE TENNESSEE STATE BOARD OF EQUALIZATION  
ASSESSMENT APPEALS COMMISSION

In re:

HONEYWELL INTERNATIONAL, INC.	)	
Map 50, Parcel 23P	)	Bradley
Industrial Property	)	County
Tax Years 2002-2003	)	

FINAL DECISION AND ORDER

Statement of the case

The taxpayer has appealed from the initial decision and order of the administrative judge, who affirmed the assessor's adjusted assessments of the subject tangible personal property as follows for tax years 2002-2003:

Year	Total value	Assessment
2002	\$14,987,535	\$4,496,261
2003	\$13,517,286	\$4,055,186

The appeal was heard in Knoxville on March 23, 2006, before Commission members Stokes (presiding), Brooks, Gilliam<sup>1</sup>, and Ledbetter. The taxpayer, Honeywell International ("Honeywell") was represented by Board registered taxpayer agent A. Scott Johnson, and the assessor Stanley Thompson was assisted by a deputy, Sherra Kinder, and a contract auditor, Byron Ellis. Mr. John Allen, staff attorney to the state Division of Property Assessments, appeared on behalf of the Division as intervenor.

Findings of fact and conclusions of law

This case involves business tangible personal property, which in Tennessee is valued for property taxes annually by way of a schedule filed by each business. The business taxpayer reports costs of its personalty on the schedule, according to enumerated categories or groups (e.g., Group 1 includes furniture and fixtures, Group 2 includes computers, and Group 5 includes manufacturing equipment) and also by year of acquisition.<sup>2</sup> The law prescribes standard rates of depreciation based on useful lives fixed for these various categories of personalty, with a maximum allowable depreciation of 80% (or as it is generally referred to, a 20% *residual* value). The personalty values resulting from depreciated cost under the statute, known as standard value, must be utilized as the taxable value unless the

<sup>1</sup> Mr. Gilliam sat as an alternate for an absent member, pursuant to Tenn. Code Ann. §4-5-302.

taxpayer or assessor can document that actual fair market value differs from standard value in a specific instance (nonstandard value).

The subject property is tangible personal property constituting machinery and equipment located at Honeywell's automotive brake components plant in Cleveland, Tennessee. Agent Johnson filed Honeywell's tangible personal property reporting schedules for 2002 and 2003 and therein claimed the standard method of valuing the property (acquisition cost less straight-line depreciation) yielded an excessive value. As an alternative, agent Johnson asserted a nonstandard value of about \$8.8 million for 2002 and \$7.7 million for 2003, due to what he characterized as economic obsolescence. The assessor rejected the claim of nonstandard value and adjusted the assessment to reflect standard values of the disclosed assets.

#### Jurisdiction

There is a preliminary question of jurisdiction for these appeals. The 2002 appeal to the State Board of Equalization was filed on January 27, 2003, more than 45 days after the Bradley County tax billing date for 2002. Tenn. Code Ann. §67-5-1412 (e) provides in part as follows:

(e) Appeals to the state board of equalization from action of a local board of equalization must be filed before August 1 of the tax year, or within forty-five (45) days of the date notice of the local board action was sent, whichever is later. . . . If notice [of an assessment or classification change] was not sent, the taxpayer may appeal directly to the state board of equalization at any time within forty-five (45) days after the tax billing date for the assessment. The taxpayer has the right to a hearing and determination to show reasonable cause for the taxpayer's failure to file an appeal as provided in this section and, upon demonstrating such reasonable cause, the board shall accept such appeal from the taxpayer up to March 1 of the year subsequent to the year in which the assessment was made.

As the administrative judge found, relief from the requirement of prior appeal to the county board of equalization or the deadline for appeal to the State Board, depends on our finding reasonable cause to excuse the taxpayer's failure to meet those requirements. Tenn. Code Ann. §67-5-1412 (e). Since Honeywell's appeal was filed before March 1, 2003, Honeywell is entitled to a hearing on the issue of reasonable cause.

By way of demonstrating reasonable cause, agent Johnson testified the tax bill was sent to the Honeywell home office rather than to his office, but the tax bill is supposed to be sent to the taxpayer's last known address as disclosed by the

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<sup>2</sup> Tenn. Code Ann. §67-5-903.



taxpayer, and there is no proof the tax notice was sent elsewhere. The tax notice, in any event, is not intended to notify the recipient of the need to appeal. The deadline runs from the billing date whether or not notice was sent, and therefore some other circumstance than a misdirected tax bill would normally be required to constitute reasonable cause. The law presumes knowledge of the applicable appeal deadline (45 days from the billing date). There being no reasonable cause to excuse the late filed appeal for 2002, the Board and this Commission are without jurisdiction to hear the appeal.

For tax year 2003, although Honeywell through its agent did not appear before the county board of equalization, there was un rebutted testimony the agent scheduled the county board appeal and was told the appeal would not be necessary, that the county board would not change the assessment. Further, the assessor was unable to prove that the required notice of the county board decision on the appeal (by default) was sent, and the 2003 appeal to the State Board of Equalization was filed on October 27, 2003, within 45 days of the tax billing date. Accordingly, we find the Board does have jurisdiction to hear the appeal for 2003.

#### Substantive issue

Regarding the substantive issue of economic obsolescence, the appraisal evidence is virtually identical to that which the Commission rejected in a companion case, *In re Breed Technologies (Blount Co., Tax Years 2002-2003)*, in that proof of economic obsolescence was based on an asset underutilization formula presented in a scholarly journal.<sup>3</sup> In the Breed Technologies appeal, the Commission found the taxpayer had not shown the method was correctly applied, and this case presents the same shortcoming, in that agent Johnson deducted his derived factor for economic obsolescence from a cost that had already received depreciation. In this case, however, unlike Breed Technologies, the taxpayer has more clearly demonstrated a factual basis for economic obsolescence.

Apart from the general decline in domestic auto market share of Honeywell's auto manufacturing customers, agent Johnson testified to obsolescence in Honeywell's product line (drum brakes) and regulatory environment (asbestos litigation), and the assessor had no response. The Commission finds the taxpayer has sufficiently documented that standard value of its tangible personal property

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<sup>3</sup> Crawford, Robert G. and Cornia, Gary C., "The Problem of Appraising Specialized Assets," *The Appraisal Journal* (The Appraisal Institute, Chicago, Illinois, January, 1994), pp. 75-85.

does not adequately account for obsolescence in this instance, and the evidence establishes at least a prima facie basis for nonstandard value that the assessor has not rebutted. Accordingly, the assessment should be reduced on the basis of the unrebutted claim.

ORDER

It is therefore ORDERED, that the initial decision and order of the administrative judge is affirmed for 2002 and modified for 2003 as follows:

Year	Total value	Assessment
2002	\$14,987,535	\$4,496,261
2003	\$8,841,610	\$2,652,483

This order is subject to:

1. Reconsideration by the Commission, in the Commission's discretion.

Reconsideration must be requested in writing, stating specific grounds for relief and the request must be filed with the Executive Secretary of the State Board within fifteen (15) days from the date of this order.

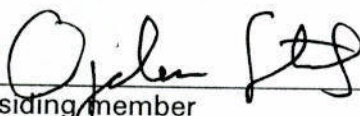
2. Review by the State Board of Equalization, in the Board's discretion. This review must be requested in writing, state specific grounds for relief, and be filed with the Executive Secretary of the State Board within fifteen (15) days from the date of this order.

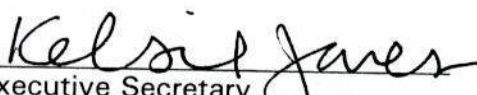
3. Review by the Chancery Court of Davidson County or other venue as provided by law. A petition must be filed within sixty (60) days from the date of the official assessment certificate which will be issued when this matter has become final.

Requests for stay of effectiveness will not be accepted.

DATED: June 13, 2006

ATTEST:

  
Presiding member

  
Executive Secretary

cc: Mr. Scott Johnson, Esq.  
Mr. John C. E. Allen, Esq.  
Mr. Stanley Thompson, Assessor